



2016 Top Markets Report **Construction Equipment** Country Case Study

China

China is the fourth largest U.S. export market for CE sector products and the largest non-FTA export market. Sector exports of \$9.9 billion/\$2.0 billion (2011 to 2015 combined/annualized average) reflect the trend of long-term export growth and near-term declines. Strong competition from domestic manufacturers, as well as the Chinese government’s efforts to support domestic production, will continue to challenge U.S. exporters. CE sector exports will likely continue to decline, and it is therefore important for U.S. companies to understand fully the challenges and opportunities inherent in exporting to China.

Overall
Rank

2

China’s Export Market

For the period from 2011 to 2015, cumulative U.S. CE sector exports to China of \$9.9 billion accounted for 4.9 percent of total global U.S. sector exports. Construction machinery and mining machinery and equipment accounted for 44.0 percent of total sector U.S. exports to China at \$4.6 billion. Exports of engines for use in these categories of equipment accounted for 45.0 percent of exports at \$4.7 billion. Exports of pumps/motors and cylinders/actuators combined accounted for 11.0 percent of total at \$1.1 billion.

After reaching a high of \$2.7 billion in 2011, annual U.S. CE exports to China have decreased 51 percent to \$1.3 billion in 2015. The initial decline mirrored global export trends for the U.S. CE sector, as post-2008 recession spending leveled off. Continued and sharp declines in exports, however, reflect the overall competitive landscape in the Chinese CE market.

China’s CE sector market is dominated by domestic manufacturers, particularly at the whole-goods/machinery level. Chinese manufacturers such as Sany, SDLG, Liugong and Zoomlion have rapidly

Country Snapshot:

- Large export volume (fourth largest U.S. CE sector export market)
- Slowing economic growth effect on exports offset by urbanization/infrastructure growth
- U.S. sector exporters face strong domestic competition

expanded their product offering over the past twenty years. Chinese manufacturers’ equipment is not typically equivalent to that of leading US, Japanese, and European producers from a productivity, reliability and technology standpoint. Chinese manufacturers, however, are narrowing the gap through acquisitions, mergers, and joint ventures with non-Chinese competitors.¹ Lower manufacturing costs in China, coupled with improving domestic product offerings, present a challenge to U.S. CE sector machinery exporters. Buyers of U.S. CE exports are primarily engaged in commercial and residential construction, infrastructure development, mining, oil and energy production. China’s government-sponsored National Plan for New Urbanization and One Belt One Road initiatives will likely continue to drive demand for CE sector products through construction activities in

urban areas as well as land and maritime transit between China and regional trade partners.² Additionally, China's status as the largest global consumer of coal, and exploration of untapped oil reserves in western interior provinces and offshore, will drive demand for CE sector products.³

Since 2000, U.S. CE sector exports to China have grown by 467.2 percent and a Compound Annual Growth Rate (CAGR) of 12.3 percent. Sector export declines since 2011, however, will likely continue as China's overall economic growth slows. As domestic Chinese competitors continue to improve their products, U.S. CE sector exporters' productivity/reliability/technology advantages will decrease, placing potential further downward pressure on exports.

Challenges and Barriers to Export

China's slowing economy: China's sustained, double-digit economic growth is slowing. According to the United States Commercial Service Country Commercial Guide for China, GDP fell to 7.4 percent in 2014, down from 7.7 percent in 2013 and 10.4 percent in 2010. GDP growth is now at its lowest in 25 years.⁴ As the Chinese economy continues to settle into a more normal growth cycle, demand for CE sector products will likely be affected.

Intellectual property (IP) protection: IP security remains a serious concern for CE sector exporters to China. Despite efforts to improve protection and enforcement of IP rights, China remains on the USG Priority Watch List in the 2015 Special 301 Report, particularly in the area of theft of trade secrets. Such theft occurs inside and outside of China for the competitive advantage of Chinese state-owned and private companies.⁵

Chinese competitors: Chinese domestic CE manufacturers offer significantly cheaper products. Rather than compete directly with U.S. CE exporters, Chinese producers are positioning their equipment as a "value" alternative (i.e. less expensive) while becoming increasingly competitive from a productivity/reliability/technology standpoint.

Opportunities for U.S. CE Exporters

Government sponsored growth initiatives: Government sponsored growth and development initiatives will increase demand for CE sector products to build out residential/commercial

construction and infrastructure to realize the goals of these plans. Most prominent amongst these initiatives is the 2014 National Plan for New Urbanization, which aims to increase the percentage of China's population living in urban areas to 60 percent (up from 54 percent in 2014).⁶ The One Belt One Road Economic Cooperation framework aims to concentrate economic cooperation throughout Eurasia through policy coordination, facilities connectivity, trade, and financial integration. Cooperation on facilities/infrastructure connectivity between China and neighboring countries may present sector export opportunities for U.S. CE sector products through construction activities.⁷ *Energy consumption:* China's is the world's largest energy consumer and second largest oil consumer. As the country's oil demand increases, efforts to find new sources in the western provinces and offshore areas will increase, driving demand for CE sector equipment to construct exploration and refinery facilities as well as infrastructure to service them.⁸

Business environment: China is ranked 84th (out of 189) in the World Bank Ease of Doing Business Index, which is a positive indicator of business friendly regulations, access to finance and a generally favorable export climate.⁹

Trade exhibitions: U.S. CE sector exporters have many opportunities to make contact with prospective Chinese buyers through trade exhibitions in North America. CONEXPO/ConAgg (Las Vegas, NV) is the largest sector trade exhibition in North America. Held every three years, the show is widely attended by Chinese buyers and exhibitors. MINExpo International (Las Vegas, NV) is the world's largest trade exhibition for the mining sector and is held once every four years. Along with annual shows World of Concrete (Las Vegas, NV) and World of Asphalt (location varies by year), which are focused on equipment used in production and application of materials, these events provide good opportunities for U.S. CE sector exporters to reach Chinese buyers.

Know the Buyer

Chinese buyers have two distinct choices for CE sector purchases: U.S., Japanese, and European CE sector equipment that is more productive, reliable, and technologically advanced, or lower-cost but less productive/reliable Chinese products. Chinese manufacturers are developing and refining their products through their own exports and

collaborations abroad and carving out a new “value technology” segment for their lower tech/less expensive products. Selling Chinese buyers on the

benefit of U.S. CE sector products is the primary challenge for potential exporters.

¹<http://www.constructionequipment.com/chinese-equipment-manufacturers-new-players-game>

²<http://apps.export.gov/article?id=China-Construction-and-Green-Building>

³<https://www.eia.gov/beta/international/analysis.cfm?iso=CHN>

⁴https://build.export.gov/china/doingbizinchina/index.asp#P8_2167

⁵<https://ustr.gov/sites/default/files/2015-Special-301-Report-FINAL.pdf>

⁶<http://www.ncpa.org/pub/ba802>

⁷http://english.gov.cn/news/top_news/2015/03/28/content_281475079055789.htm

⁸https://www.eia.gov/beta/international/analysis_includes/countries_long/China/china.pdf

⁹<http://www.doingbusiness.org/data/exploreeconomies/china>